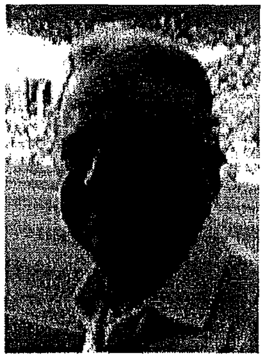
Sell Low, Sucker

print

LA Watchdog

By Jack Humphreville

The City is trying to emulate Chicago again by considering the sale of selected under-managed parking assets to help balance the out of control budget deficit rather than making tough personnel decisions. But this is just another dumb idea from the grasping-for-straws financial wizards in the Mayor's office. While they can put all sorts of lip stick on this pig of a deal, the City is selling off capital assets to pay operating expenses at a time when it is a buyers' market. Not only is it short sighted, it is just plain wrong to mortgage our future for a short term fix.



Furthermore, the "investors" have a significantly higher cost of capital than the City's borrowing rate. Investors will demand increased revenues every year in order to achieve their rich investment objectives. In the Chicago transactions the final concession agreement did not impose any restrictions on what the operator could charge. This may explain why the parking meters are the target of so much vandalism.

To help justify the decision to sell these capital assets, the City is retaining "independent" advisors. However, these politically connected "independent" advisors are motivated by fees, fees, and more fees. Their business is to do deals. While the upfront fees are over $500,000 and constantly rising, the deal fees are in the range of $3,500,000, paid at the closing. When the deal closes, the bankers will have the "bragging rights" or another notch on their bedpost when they pitch their wares to the next sucker. And we have to live with the consequences for generations.

And do you think these "independent" advisors are going to tell their client, the Mayor, the initiator of this cutting edge financial transaction, that this is a dumb deal? That is bad for business.

If the City decides to go to market with the three investment banking firms (two of which are political freeloaders), there is a high probability that the City will not achieve its price expectations, especially in this limited buyers' market. But the City will be forced to proceed because the net proceeds have been budgeted and spent. It won't be pretty unless you enjoy listening to the City Hall spinmeisters.

Rather than spend $500,000 or more to investigate the feasibility of the sale of an under-managed asset to a very limited universe of buyers, where the City will be whipsawed by unreceptive financial markets and fast talking, fee hungry, bonus oriented, politically connected investment bankers who have you over the barrel because you need the money, why not step back and consider the various alternatives, including developing a plan with the help of the neighborhood councils where the management of these assets are held accountable for achieving mutually agreed upon results? *(Jack Humphreville is a publisher and the Rate-Payer Advocate for the greater Wilshire Neighborhood Council. Humphreville writes LAWatchdog for CityWatch.)*

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Lipstick on a Pig

print

SELLING OUR ASSETS

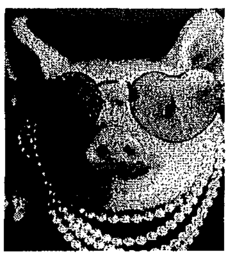
By Jack Humphreville

No matter how much lipstick you put on this pig, no matter how much you try to dress this pig up, it ain't going to be pretty. And the proposed sale of 10 parking structures is just a plain ugly double bagger pig, no matter how you structure or spin this just plain dumb deal. Or to paraphrase Laura Chick: It stinks.

For openers, the sale of revenue producing assets to pay for operating expenses, of which the Reserve Fund is one, is Financially Irresponsible, no matter what the City Hall fear mongers and spinmeisters say.

Put very simply, this is an invasion of principal, a raiding of City assets, the mortgaging of our future that is being used by the City to continue its long term spending addiction. And it delays the making of tough restructuring decisions.

The process being used exposes the City to significant risk of getting "hosed" at the last minute by the financial buccaneers who have visions of at least quadrupling their investment in five years. Not bad, but not so hot for LA!



The City has been advised by its four (yes, four!) Chicago based advisors to put the deal out to bid and let the "market" value the assets.

However, given all the "hair" associated with this mish mash collection of parking facilities, the City's dire financial condition, and the failure to develop credible alternatives, we will be sold out to sea by fast talking, fee hungry, bonus oriented investment bankers, financial advisors, and lawyers who are just looking for another notch on their guns, and devoured alive by Wall Street great white sharks.

Furthermore, the citizens and businesses of Los Angeles will have the privilege of paying significantly more for its parking since higher rates and longer hours are key components driving the value of these parking facilities.

In Chicago, parking meter rates are projected to increase by over five times in the next five years, and coupled with the longer hours, rates are projected to increase eight (8) times, all to benefit private investors such as Morgan Stanley and Abu Dhabi.

And there is nothing that Chicago can do unless it is prepared to pay huge penalty fees under the "True Up" provisions of the investment agreement. The penalty is based on the amount of the change times a large multiple designed to make up the loss in value to the investors.

The structure of this transaction has lots of "hair." The package of 10 facilities and two yet to completed structures vary in size and location.

One of the unattractive features is the inclusion of seven facilities that have an average of less than 300 parking spaces and average revenues of $430,000 a year, whereas the four geographically clustered Chicago facilities that were sold in late 2006 had an average of 2,300 spaces.

These smaller facilities, especially those in the Valley, are not very attractive to investors because it is very difficult to get the proper economies of scale, thereby lowering the valuation.

This is one reason that helps explain why the average price per parking space anticipated by Los Angeles is 50% to 60% LOWER than the $61,000 received by Chicago. Of course, this huge disparity in value invites the question whether this is the time to even contemplate the sale of these parking facilities.

To get a better understanding of how poorly our facilities are run, the City's Chicago based parking consultant estimated that a private operator would have over $55 million more in cash flow over the next five years than if these facilities were operated by the City!

Of course, this is proof that the City cannot even run a parking lot, to say nothing about a $7 billion budget.

This transaction is going to be made more difficult because the City, difficult to deal with at best, does not have the necessary information that an investor needs to make a fully informed decision.

To the contrary, the investment community will know more about these facilities than the City, its management, and its "experts." It is not a fair fight and we are the short end of that deal.

We are even relying on a Chicago based investment bank that does not have the necessary investment banking experience to properly orchestrate this very complicated deal that has lots of moving parts.

JP Morgan, an experienced New York based investment bank, was the lead investment bank, but dropped because of the City's conflict of interest rules, leaving the politically connected LOOP Capital as the lead investment bank.

But the senior LOOP banker is a very well qualified person: a politically connected, Harvard educated Easterner who was a classmate of George W. Bush and is a rabid Celtics fan!

The sale of assets and one-off gimmicks needs to stop and the time is now. Ask yourself: "What will the City sell next: City Hall, DWP, LAX, the Port, or maybe even our streets?"

The City needs to develop alternatives for the operation of our parking facilities and parking meters and to closing this year's $200 million budget gap and next year's $500 million hole. But the sale of the parking facilities or parking meters or other assets is the wrong answer.

This sale (or Long Term Concession and Lease) has been billed as a Public Private Partnership. Quite frankly, this is not the kind of partnership that is good for LA. It is one where the Public does all the giving, the Private investors do all of the taking, and we get the shaft.

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This Little Piggy Went to Market

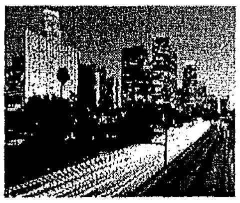
print

LA FOR SALE
By Jack Humphreville

Ten of the City's parking facilities (and possibly three new structures) are officially for sale. On February 5, the City sent out a Request for Qualifications [LINK] (the "RFQ") a 38-page document with enough rules and regulations to scare off many well-heeled buyers.

RFQ's were due on March 4. Qualified Bidders are expected to sign Confidentiality Agreements on or around March 12, at which time they will be given an Investment Memorandum to review and analyze.

During March and April, prospective purchasers will be afforded the opportunity to do their Due Diligence (read: kick the tires, review more documents, visit the parking facilities, ask lots of questions). Those Qualified Bidders that are still interested will be presented with Bid Documents (essentially an Asset Purchase Agreement drafted by the Chicago-headquartered law firm of Katten Muchin Rosenman LLP) that will outline the terms of the transaction, including the ability to raise rates.



After negotiations, which no doubt will be considerable, Final Proposals are due in June. The Closing is expected to occur in July.

Unfortunately, it appears that this ill advised, poorly conceived deal has what Warren Buffett describes as the "Institutional Imperative," "which describes, among other things, how an entire organization can rise up to help a boss justify some deal he's inclined to do, regardless of its merit."

LOOP Capital, the politically well-connected Chicago based brokerage firm that is representing our City, has very little investment banking experience, unlike other investment banking firms headquartered in Los Angeles.

The bulk of its fee is contingent upon the closing of the deal. And given that LOOP is an "eat what you kill" firm, the incentive for the broker is to close the deal: damn the client, full speed ahead. After all, LOOP and its partners do not have to live with the consequences of this crummy deal.

As Felix Rohatyn, the financier and elder statesman of Wall Street who is credited with saving New York City from bankruptcy in 1975, told Andrew Ross Sorkin of the New York Times, "You shouldn't earn a lot less by keeping your client from doing something stupid, but that's the way it is. The majority of fees are conditional."

More than likely, the potential purchaser will not be from Los Angeles or even California, but from such places as New York City, Abu Dhabi, or Australia, meaning that all the parking fees (estimated to be about $40 million in the fifth year) will be sucked out of our economy.

An alternative would be for the City to hire a parking management company, just like Morgan Stanley did in Chicago, who would be given the flexibility to raise rates in a manner consistent with a new investor. At the same time, the unions could give the management company the flexibility to operate more efficiently. The resulting $20 million a year in operating profit would support a number of City employees.

Another alternative would be to contribute the parking facilities to the City's massively underfunded pension plans, tax law permitting. This way, when the parking facilities are sold or taken public, the City would be benefit from the significantly higher valuation.

And as if this wasn't bad enough, the City has authorized spending an additional $180,000 for the Chicago based Desman Consulting to finish its study of the City's parking meter system. You do not have to be a Phi Beta Kappa to figure out that the parking meters are the next dumb deal.

In the meantime, the City still has not addressed the structural issues related to the $3.5 billion budget deficit, including the pension plans and the deteriorating infrastructure.

It is time to stop this nonsense [LINK] and develop meaningful structural solutions before barreling ahead and selling revenue producing assets at a low-ball price that burdens the next generation.

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LA Is This Little Piggy's Roast Beef

Selling City Parking

By Jack Humphreville

Who are you going to trust to give us the straight scoop on the City's proposed sale of its ten parking facilities and their 8,398 parking spaces?
The Chicago based investment bank which has a fee of over $1,500,000 contingent upon the successful completion of the transaction?

The Wall Street investors who anticipate making at least four times on their money within five years, not unlike the returns expected by Morgan Stanley and Abu Dhabi in Chicago?

Or our fiscally challenged Mayor who is still relying on one-off gimmicks to balance the pension challenged budget?

In mid-March, the City's investment banker, Chicago based LOOP Capital Markets, sent potential investors the Confidential Information Memorandum. Investors are expected to conduct due diligence in March and April, and after receiving bid instructions in May, make final offers in June. The Closing is expected to occur in July.

Unfortunately, this ill-conceived scheme smells like another one of the Mayor's breathless "rush to judgment" deals where his young political operatives supply only selected information to the City Council and the impacted neighborhoods and businesses. The Mayor, relying on power politics to trump transparency and common sense, will create another adversarial and divisive situation, not dissimilar to the recent debacle involving the Department of Water & Power that will cost DWP and the City tens of millions in additional interest payments.

The sale of the ten parking facilities is a bad deal for the City for numerous reasons. The net proceeds from the sale of revenue producing capital assets are being used to fund operating deficits. The price per parking space will be less than half the price of $61,000 that Chicago received. Parking rates will soar. Out of town investors will siphon substantial profits (estimated to be around $115 million over the first five years) out of our cash starved economy. And the City will lose the annual revenue that it currently receives.

Fortunately, there are some homegrown alternatives. For example, the City could retain a professional management company to help streamline and improve the existing operations so that the City can capture a significant portion of the expected $115 million in operating profits that a private enterprise is expected to earn over the next five years.

Rather than rushing ahead with this gimmicky, one-off scheme, the City needs to have a more transparent process where it consults with the impacted neighborhood and businesses. For example, the Mayor's office has not even consulted with the local business organizations in downtown Los Angeles, Hollywood, Sherman Oaks, Westwood, and Larchmont. Nor has the Mayor's office reached out to the local Neighborhood Councils.

This lack of outreach is further compounded by the City's bureaucratic unwillingness to disclose the Confidential Information Memorandum because "the City is in the midst of an active bid process and cannot disclose this information at this time as such disclosure would potentially impair the City's negotiation and selection process. "

Rather than rely on misleading slogans like "Public Private Partnerships" where the Public does all the giving and the Private investors reap vast profits, or using the Chicago/Mayor Daley transactions as a precedent where the "taxpayers have been hosed, " the City needs to cease with the sale process, consult with the impacted neighborhoods and business communities, and develop "thoughtful, structural solutions, not a carelessly conceived, short term political fix that will cost us all more in the long run."

And quite frankly, no matter what the City does with respect to its parking facilities, it will do very little to solve the $17.6 billion pension shortfall.

Also Read

• Sell Low, Sucker [LINK]
• Don't Hose LA [LINK]
• Lipstick on a Pig [LINK]
• This Little Piggy Went to Market [LINK]

(Jack Humphreville writes LA Watchdog for CityWatch He is the President of the DWP Advocacy Committee and the Ratepayer Advocate for the Greater Wilshire Neighborhood Council. Humphreville is the publisher of the Recycler -- www.recycler.com . He can be reached at lajack@gmail.com) -cw

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What is the City Hiding?

print

LA WATCHDOG

By Jack Humphreville

The sale of the City's parking facilities and the ever escalating demands of its massively underfunded pension plans are two of the most important line items in the 2010-11 budget. And yet, the City is unwilling to share any basic information that allows its citizens to make any informed judgments or recommendations as to the proper courses of action. Rather, we are being treated like mushrooms by the self serving City Hall politicians who have driven the City to near insolvency. For example, on Tuesday, the City Council met in closed session to discuss the ill conceived sale of the City's revenue producing parking facilities without any hearings or input from the impacted communities or the public. As a result, this deal, the proceeds of which will be used to fund every day operating expenses, will gain what Warren Buffett terms the "Institutional Imperative," where the City Council will be steamrolled by the Mayor and the municipal unions into doing a bone headed deal at a fire sale price.

Maybe the desire not to be second guessed by the taxpaying Hoi Polloi of Los Angeles is the real reason why the City will not disclose the basic information provided to private investors who are seeking outlandish rates of return at our expense.

The City is also playing rope a dope on providing meaningful information on the City's two pension plans, the Los Angeles City Employees Retirement System and the Fire and Police Pensions, and their future funding requirements.

In response to the June 8 article in CityWatch, **Pension Elephant: Getting Uglier**, that discussed comments that were critical of certain elected officials, Dennis Zine's office responded:

"As Chairman of the Personnel Committee and a member of the Executive Employee Relations Committee, Councilman Zine is focused on the issue of pension reform. It has been at the forefront of consideration during the past year; however, because the EERC meets in closed session, the public consumption of potential labor negotiations is not available.

This motion makes it clear that the intention is to move forward expeditiously to solve our pension problems in a fair and reasonable manner. The portion of pension reform that must be approved by voters needs to come to a policy decision by the Council prior to November in order to be on the March 2011 ballot. If you need any additional background information, please contact our office"

How many times have we heard this line before?

However, when we called Zine's office, no additional background information was available. Nor did his office have the names of people to contact at LACERS or FPP. We stressed that we did not want to be part of the negotiations, but would like the essential information that would be part of any meaningful negotiation.

For example, what is the impact of using more realistic Investment Rate Assumptions of 6% or 7% instead of relying on the 8% Myth?

Or what is the impact of using the market value of the funds' assets which would cause the unfunded liability to increase to $11.5 billion from the "Unfunded Actuarial Accrued Liability" of $4.6 billion.

Or what is the impact of using more realistic amortization assumptions relating to the unfunded pension liabilities?

Or what was the impact on the City's pension payments of the recent extension of the "smoothing" periods and expansion of the Market Value Corridors? Did these changes allow the City to "save" or defer $400 million of payments to the pension plans?

Or what is the impact if the two pension plans used the same rules as Corporate America?

And what information is there to refute the arguments of Mayor Richard Riordan and Alex Rubalcava that the City will need to declare bankruptcy in 2014?

Of course, if this information is not available, how can the City "meet and confer" on an equal footing with the well researched politically powerful municipal unions?

And, it should be noted, there are a number of other motions touting pension reform, including one related to the March 26, 2009 report on the City's pension plans by the non-partisan League of Women Voters. But for some strange reason, little or no progress has been made.

Again, City Hall is treating its citizens as the Great Unwashed, leading to the lack of confidence and trust in our elected officials. Just look at what happened to the Mayor, the DWP Board of Commissioners, and selected other elected officials this spring as a result of the ECAF Fiasco.

Rather than keep all this important information squirreled away in the bowels of City Hall and ramrodding deals through City Hall, the City Council and the Controller should insist on an open process where detailed independently verified information is openly discussed in numerous public hearings where the citizens are meaningful part of the dialogue.

It is important that the 99% of the people that do not work for the City can get a better understanding of the important financial issues facing the City.

The people of Los Angeles cannot be treated as mushrooms, not if you want their trust and confidence.

(Jack Humphreville writes LA Watchdog for CityWatch He is the President of the DWP Advocacy Committee and the Ratepayer Advocate for the Greater Wilshire Neighborhood Council. Humphreville is the publisher of the Recycler -- www.recycler.com . He can be reached at lajack@gmail.com) -cw

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